



## Policy Roundtable for Child Care

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November 15, 2005

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

### **REGIONAL MARKET RATES FOR STATE-SUBSIDIZED CHILD CARE SERVICES (3 VOTES)**

#### **IT IS RECOMMENDED THAT YOUR BOARD:**

Send a five-signature letter to Jack O'Connell, California Superintendent of Schools, with copies to Michael Jett, Director of the Child Development Division and the Los Angeles County Legislative Delegation, urging the California Department of Education (CDE) to:

- Delay implementation of the new Regional Market Rates (RMR) for subsidized child care services for at least six months;
- Use that period to determine the potential impact of proposed rates on providers of subsidized child care services and related administering agencies; and
- In collaboration with child development practitioners, researchers, and parents, begin to design a payment system for subsidized child care which addresses quality standards and compensates programs providing high-quality services at higher rates. In addition, the California Department of Education/Child Development Division should mobilize its training and support resources to ensure that the full-range of child care providers (centers, family child care homes and license-exempt) have access to the services needed to provide high-quality care.

#### **JUSTIFICATION**

CDE recently released the results of the 2005 Regional Market Rates (RMR) survey with the intent of full implementation by January 1, 2006. The RMR determines the rate ceiling to be paid for subsidized child care. As in the past, child care centers and family child care homes were surveyed regarding their rates. Unlike previous surveys which resulted in countywide RMR, the 2005 survey identifies RMR on a Zip Code basis. In addition, the RMR for license-

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exempt child care providers are not based on survey data. This rate was arrived at by calculating 90 percent of the rate for licensed family child care providers within the same Zip Code.

Using a variety of socioeconomic factors, 13 market profiles were developed for child care centers and 21 market profiles were developed for family child care homes. Data elements were analyzed for each Zip Code in the State, and Zip Codes with comparable data characteristics, while not necessarily in proximity to each other, were assigned the same market profile and RMR. An unintended consequence of this methodology is the potential to lock-in lower rates for child care centers and family child care homes in the lowest income areas of each county. This would make it extremely difficult for programs in low-income communities to pay the competitive salaries needed to attract and retain well educated teachers. For example, the maximum reimbursement rate for child care center programs located in the 90044 Zip Code is approximately one-half of the maximum reimbursement rate for programs located in 90403.

<b>Sample of Proposed Regional Market Rates for Child Development Centers</b>		
Zip Code	Infant – Full Time Maximum Monthly Rate	Preschool – Full Time Maximum Monthly Rate
90044 (MP 17)	\$659.47	\$633.09
90403 (MP 06)	\$1,406.31	\$1,225.93

These rate ceilings do not take into account the education, tenure, or number of the teaching staff; the program's history of compliance with licensing regulations; appropriateness of the curriculum for young children; or child outcomes. The rate ceilings have no correlation to the effectiveness of the program.

#### **FISCAL IMPACT/FINANCING**

The release of the 2005 RMR was much anticipated as reimbursement rates for subsidized child care services have been capped based on 2002 data. In general, the 2005 RMR will allow for increased reimbursement rates for most providers. However, reductions are proposed for certain age groups and schedules.

The creation of rate ceilings for each Zip Code has long-term implications, particularly for child care programs based in low-income communities. Because they will be operating with lower rate ceilings, these programs will be disadvantaged when competing for trained teachers and will have fewer resources to re-invest into their program or facilities.

Subsidized child care services for CalWORKs clients and clients of the Department of Children and Family Services are directly impacted by the proposed RMR.

### **FACTS AND PROVISIONS**

As the lead agency administering the Federal Child Care and Development Fund in California, CDE is required to conduct a local market rate survey for the purpose of setting payment ceilings for child care services subsidized with federal funds. These rates are to be set so that children receiving subsidized child care through programs such as CalWORKs and the Alternative Payment Program, are assured equal access to comparable care purchased by fee-paying parents.

Previously, RMR were determined by surveying a sample of child care programs, including licensed child care centers, licensed family child care providers, and license-exempt providers, within each county. This data was then analyzed at the county level, resulting in specific RMR for type of child care. The RMR were set at the 85<sup>th</sup> percentile, ensuring that fees for 85 percent of programs would fall within the RMR.

The proposed 2005 RMR were developed using a different methodology and are designed to be implemented at the Zip Code, rather than county level. There are over 300 Zip Codes in Los Angeles County. To determine the RMR for a specific child care program, it is necessary to first identify the Zip Code of the program, then to determine:

- The type of care — child care center, family child care home, or license-exempt;
- The age of the child to be served — infant, preschool, or school age; and
- The schedule of care to be provided — part-time hourly, full-time daily, part-time weekly, full-time weekly, part-time monthly, or full-time monthly.

CDE released the proposed RMR in October 2005, and posted detailed information on rates by Zip Code on the Child Development Division Web page. This was the first opportunity the child care community had to review the proposed rates and new methodology. The response to the proposed rates has not been entirely positive and information on the proposed RMR has been removed from the Web page for further revisions.

### **IMPACT ON CURRENT SERVICES**

The Roundtable has five major concerns with the 2005 proposed RMR:


- Because the proposed 2005 RMR sets rate ceilings at the Zip Code level, programs in low-income communities will be faced with universally lower rate ceilings than programs in higher income communities.
- Labor costs account for between 70 percent to 90 percent of child care program budgets regardless of location. The imposition of lower rate ceilings on programs located in low-income communities severely limits their ability to compete for and retain well educated teachers. The education and consistency of child development teaching staff is key to the quality of services which a program can provide.
- The proposed RMR is not related in any way to the quality of child development services being provided to the participating children and their families.

- License-exempt providers located in high income communities have the potential to be compensated at rates that exceed the maximum for licensed child care centers and family child care homes in low-income communities. The RMR should compensate providers who have incurred costs to secure a license and comply with licensing regulations, and invested time and resources in training and staff development, regardless of their location within the County or State.
- With over 300 Zip Codes in Los Angeles County, programs and agencies charged with administering this new Zip Code based rate structure will require time to modify their payment systems.

### **CONCLUSIONS**

While new RMR are long over due, the Roundtable recommends that your Board urge the California Superintendent of Schools to delay implementation of the 2005 RMR until issues of equity can be addressed and administrative procedures can be developed. Further, the Superintendent should be urged to provide leadership in developing a payment system for subsidized child care that recognizes and compensates high quality services. The Roundtable has been working on a quality rating system for child development programs and would be willing to share our products and experience with the Superintendent and his staff.

Respectfully submitted,

  
MATT REZVANI  
Chair

MR:KMS

c: David Janssen, Chief Administrative Officer  
Executive Office, Board of Supervisors  
County Counsel